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DISTRIBUTION OF THE NATIONAL INCOME OF THE USSR

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INTRODUCTION

The purpose of this work is the determination of the true dimensions and distribution of the USSR national income and especially the proportion in it of expenditures for defense. The results obtained differ sharply both from the official data as well as from the estimates of Western economists, despite the fact that all three estimates use the very same source -- published statistical indices of the Central Statistical Administration.

Such a variance, of course, requires a justification. The fact is that, as shown in the work, substantial distortions are introduced into the statistical data at the very highest level -- in the transfer to the last summarizing indices. And it is these distortions which we have strived to correct. On the other hand some of the principles of Soviet statistics, which differ from those used in the West, produce no distortions in themselves, but merely make the comparisons with other countries more difficult. Such, for example, is the inclusion in the national income of the turnover tax and also the failure to include income from services. Western experts, as a rule, direct their attention specifically to this side of the matter and recalculate the final summarizing data of the Central Statistical Administration according to their own (Western) methodology. No detailed analysis is made. Thus, these evaluations differ from our official figures merely in form. Moreover, they consider that nothing better can be extracted from the Soviet statistics.

One of the main results of our work consists specifically in the possibility of drawing substantial conclusions from the statistics of the Central Statistical Administration. Thus it is that at times in the attentive reading of a novel written according to the method of social realism you will discover unexpected and completely real features of our life.

One of the major differences in the economy of the USSR and that of Western countries is the fact that the price of products emerges in our country not as the result of market relations, but is fixed and serves as an instrument of the planned redistribution of the national income in the interests of the State. "By virtue of the planned deviation of the price from value a part of the accumulations made in the first subdivision is realized in the price of products of light, food and other branches of industry which produce consumer goods." (D. A. Allakhverdyan, "Finansy sotsialisticheskogo gosudarstva" (Finances of the Socialist State), Moscow, Sotsekgiz (State Publishing House of Literature on Social Sciences and Economics), 1961 (?), p 30.) We have attempted to produce a quantitative accounting of this fact.

The calculation has been made on the basis of the example of 1969. The correction of the published structure for utilized national income is carried out in two phases. Considered in the first chapter is the role of indirect taxes, especially the turnover tax, which distort the relationship of the retail prices in comparison with wholesale. Considered in the second chapter is the arbitrariness of the structure of the wholesale prices themselves and the attempt is made, mentally, to approximate the structure to the prices of the world market.

After these two corrections the following principal results are obtained -- the measure of the total (i.e., including services) national income of the USSR: 130-190 billion dollars (17 to 25 percent of the total national income of the U.S.); the proportion of personal consumption in the national income of the USSR is, correspondingly: 31 to 21 percent; the proportion for defense: 41 to 5 percent.

At the end of the work (Chapter 3) a comparison with other countries is given and comments are made on the results obtained, which, in our opinion, predetermine the contemporary social and political situation in the USSR.

It is emphasized once again that the calculation is based on readily accessible statistical materials and anyone can easily repeat it. The main source is the reference book "Narodnoye khozyaystvo SSSR v 1969 g." (The National Economy of the USSR in 1969). All references to this reference book show the appropriate page of that text.

CHAPTER 1

§ 1. We proceed in this chapter exclusively from Soviet statistical methodology; specifically, from the officially accepted definition of national income in the USSR as being the value newly created only in the sphere of material production, including the turnover tax. (The correctness of such a definition is argued in detail in Appendix 1.)

The basic finding of this chapter is that a simple calculation of the difference of the retail and wholesale prices for the military expenditures (V.R.), of the USSR yields a figure of 80 billion rubles* (with the total size of the utilized official national income being 256.6 billion rubles, p 559).

A part of the surplus product is spent on defense; therefore, the definition of military expenditures is connected with the definition of the true structure of the national income. It will be recalled that national income, being the value newly created during the year, represents the "net" or "end" annual production of the national economy.

According to the data of the Central Statistical Administration, 69.1 billion rubles of the total national income of the USSR in 1969 were spent on growth (the accumulation fund) and 187.5 billion rubles were spent on consumption (p 559). It is common practice to break down the consumption fund into two parts: the first, the necessary product (neobkhodimiy produkt), that is, the personal consumption of the workers (taking into account the benefits (blag) received from public funds); the other part is formed (as is accumulation) from the surplus product and constitutes expenditures for defense, administration, science, and uncompensated assistance to foreign states.

The published structure of the consumption fund does not give its breakdown into these two parts (and even the official budgetary figure on expenditures for defense is not revealed in it). It so happens, however, that a direct calculation of personal consumption is possible, and thereby, also of the second part of the consumption fund. Then it will be easy to also evaluate the sought for expenditures for defense.

To calculate personal consumption it is sufficient, first of all, to add up all the incomes of the population (moreover, since the nonproductive sphere is not included in the national income, in order to avoid double counting of incomes one should not consider the earnings in those of its branches which are paid for by the population). Then one should deduct that essentially

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* The official budget figure is 17.7 billion rubles.

fictitious part of incomes which is taken back in the form of direct and indirect taxes, payments, etc.

The forms of incomes and deducations are reflected very precisely from the quantitative standpoint by the official statistics. Thus --

§ 2. Incomes

1. The annual earnings (including bonuses) of 62 million workers and employees in the material production sphere are 90 billion rubles. It is obtained on the basis of data on the number of persons employed and on the average monthly wages by branches (pages 530, 539; employment in freight transport -- pages 451, 472). These figures are multiplied and summed up by branches of the material production sphere, and multiplied by 12 months, which automatically takes into account of payment for leaves.

2. The kolkhozniks are given money and products 14.1 billion rubles (page 397)

3. The incomes of the kolkhozniks, workers, and employees from the private plots constitute the part of the national income produced on these plots. However, an exaggerated evaluation can be given for the amount of these incomes. An official figure is not cited, but the size of these incomes can be given an exaggerated evaluation: from the entire national income produced by agriculture (50.8 bill. rubles, p 558), one must deduct the part of the national income produced by kolkhozes (19.5 bill. rubles, the so-called gross income of the kolkhozes, p 397) and sovkhozes (nearly 12 bill. rubles -- wages of workers plus profits). We get the figure of 19 bill. rubles and accept (conditionally) this figure as the income from private plots, which are fully included anyway.

4. Social insurance and free services are accounted for in the expenditures for social and cultural measures (64.4 bill. rubles from budget enterprise, kolkhoz, trade-union, and other funds, p 771). It is necessary to deduct from this figure expenditures for science (10 bill. rubles, p 771) and paid vacations, accounted for above (averaging at 8 rub./month, p 538 -- i.e. altogether about 6 bill. rubles/year). This leaves 48.4 bill. rubles. Basically, this figure includes direct payments: wages for medical doctors, teachers, and workers in the arts and the press in the non-self-financing portion of these branches and others, pensions, allowances, paid sick-leave, and so forth, as well as material expenditures in establishments which serve the population.

5. Wages of scientific and administrative workers -- 7.6 bill. rubles (pp 530, 540, an estimate).

6. Annual interest from savings deposits -- nearly 1 bill. rubles (see Pravda, 4 Oct 1971).

By adding up all types of income received by the population of the USSR, we get the total of 180 bill. rubles.

§ 3. Deductions

1) for the state budget, according to the channels listed below (see p 789);

a) receipts from the population (taxes, loans, lottery, and the like (13 bill. rubles)

b) turn-over tax -- 44.5 bill. rubles. Subtracting it from the income of the population we utilize a most important (and generally known) fact: the turnover tax is collected in branches producing consumer goods (see, for example, the "USSR State Budget," a textbook for financial technical schools, "Finances," Moscow, 1969, p 49). This is precisely why although formally the turnover tax is a tax from enterprises, actually the population pays it at the moment of buying products and goods.

c) after deducting from the total sum of the budgetary revenues the payments from profits, turnover tax, the state social insurance funds and taxes from kolkhozes and cooperatives, there still remain 26 billion rubles income from state enterprises, whose structure official statistics do not interpret in detail. The basic portion of this sum are indirect taxes in the sphere of services ("entertainments tax" and a multitude of others on passenger transportation, post office, etc.), which do not pass through the balances of economic enterprises and are therefore not included as part of their profit. For the extent of these taxes let's arbitrarily take a deliberately underestimated figure of 15 billion rubles. In contract to other data, this figure is not confirmed by documents. The reader can satisfy himself that changing this figure within reasonable (in his opinion) limits will not radically change our conclusions.

2) Owing to shortages and the low quality of goods, the population doesn't spend all the money received. A portion of the money not spent is actually returned to the state -- this is the annual accretion of deposits in the savings bank (six billion rubles, page 585).

3) Trade union, Komsomol and party dues -- according to our estimate -- about two billion rubles.*

Total deductions: 80 billion rubles

§ 4. Thus the actual sum received by the populace (personal income) amounts to: 180 -- 80 -- 100 billion rubles. Therefore, a portion of the consumption funds equal to 87 billion rubles (187 -- 100) remains at the government's disposal. Subtracting therefrom the costs of administration, non-military

* Let us remember that we have already taken into consideration all the benefits presented to the population by the state, the trade unions and others from these dues and taxes.

science, and the very small non-military portion of uncompensated foreign aid, we observe that the expenditure for military purposes amount to about 80 billion rubles -- basically this is going to countless "boxes."*

It should be noted that a portion of the capital investments may be directed to military purposes; however, we were not able to take this into account.

Thus a direct computation of the real incomes of the Soviet populace shows that there remains a portion of the national income, equal to approximately 80 billion rubles, which goes to military expenses. The only non-trivial moment in the foregoing discussion is the confirmation that the majority of the statistical data from the Central Statistical Administration make sense.

§ 5. NOTE: Under personal consumption we did not include state expenditures for construction of housing, schools, hospitals, and the like. But these expenditures are included in the accumulation fund. According to the Central Statistical Administration, its basic structure is as follows: more than half (about 55 percent -- i.e. 38 billion rubles) of the capital investments goes into the expansion of the second subdivision (agriculture, Group B), housing, construction for cultural and everyday services, etc.; the remaining 31 billion rubles go into the development of the first subdivision (pg. 504, calculation). To us, these figures should be lower.

§ 6. We will make a calculation necessary for the future. The distribution of the national income obtained is still very far from the true one for one important reason -- the preplanned inequality not only of the retail but also of the wholesale prices.** The latter, like retail prices, are too high in the branches connected with the consumption of the population (see Chap 2). From the results of the present chapter it is possible to determine the part of the national income (in actual wholesale and purchase prices) corresponding to the final annual production of these branches. (This is necessary in order to establish the quantitative relation between the adjustments of the wholesale prices and the structure of the national income -- see Chap. 2, §3).

Actually, the part of the national income connected in the final analysis with the population's consumption is 1) the necessary product [100 billion rubles of personal consumption, § 4]; 2) the part of the surplus

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*We accepted the official budget figure for administration -- 1.7 billions, which is doubtless understated. On the other hand, we put the civilian portion of the expenditures for science at approximately one half of the total expenditures (10 billion rubles, p 771), whereas even in the U.S. more than half of the appropriations for scientific research and development is used for military purposes. Thus, the 7 billion rubles deducted is hardly less than necessary.

** We would remind you that the wholesale price, in contrast with the retail, does not include a turnover tax.

product not going into defense and accumulation [7 billion rubles, § 4]; and 3) the corresponding part of the accumulation fund [33 billion rubles, § 5]. In all, 145 billion rubles. The basic part of this sum is the wholesale (purchase) value of the output of the second subdivision (food products, consumer goods), of new producer goods entering into the second subdivision, housing, etc.

§ 7. At the end of the chapter we formulate the result obtained in the preceding paragraph for the total (i.e., including the non-productive sphere) national income of the USSR. This becomes necessary since the adjustment of wholesale prices carried out in Chapter 2 is based on a comparison with other countries for which the structure of total national income only is known.

The figure for the total national income of the USSR (in rubles) is determined in Appendix 1, where it is shown that it differs from the official only by the contribution of the self-financed (paid) sectors of the non-productive sphere -- an addition (without the indirect taxes in the non-productive sphere) of no more than 20 billion rubles.

Inasmuch as paid services are, in the main, services to the public, for want of information we add this amount in toto to personal consumption.

Thus, the total national income of the USSR is about 276 billion rubles (256 + 20). Of this amount, the "wholesale" value of the final product (goods and services), providing for personal consumption, its development, non-military science, and administration, is 165 billion rubles, including 120 billion rubles for personal consumption. (cf. § 6).

CHAPTER 2

§ 1. The goal of this chapter is the adjustment of the wholesale price structure of the USSR and an attempt to bring it nearer to the prices of the world market. This will allow determination not only of the true distribution of the national income of the USSR but also of the absolute magnitudes (in dollars) of the national income, military expenditures, accumulation, and personal consumption.

Such adjustment is all the more important, since in the recent years the role of the turnover tax has been declining, but on the other hand the differentiation of wholesale prices is growing. The series of wholesale price increases that has been effected since 1967 has allowed the subsidies of a majority of heavy industrial enterprises to be taken away. Even the military branches are being transferred to operation on a self-supporting basis: they are mastering civilian production and are turning out their own basic output at the expense of this. Also it was precisely an increase in purchase prices (1965) that on the whole liquidated the chronic unprofitableness of the kolkhozes.

"In the USSR the wholesale price of the means of production that go into the branches of the first subdivision is understated, and conversely prices (wholesale and purchase) in the consumer areas are somewhat overstated." (S. G. Stolyarov, "On Prices and the Setting of Prices in the USSR," Moscow, 1969) From this there follows, in particular, the strong overstating of the degree of "agrarianness" of our country. The overestimation and distortion of prices appears most clearly and convincingly in the comparison of the national incomes of the USSR and U.S. as shown by the index of agricultural production.

§ 2. In fact, using comparable statistics of the Central Statistical Administration, it is possible to show that the absolute magnitude of the national income in the agriculture of the USSR is about 17 billion ?? dollars.*

* [Footnote: This is the base figure for further computations. It was obtained as follows: The part of the national income produced by agriculture in the United States is equal to 23 billion dollars (in prices without trade mark-ups and the cost of transportation, in accordance with the fact that USSR agricultural production is expressed in purchase prices). According to the Central Statistical Administration, the gross agricultural output of the USSR is 85 percent of the American (page 95). The ratio of the net income in the agriculture of the two countries should be somewhat less. (The basic reasons for this are: the Central Statistical Administration considers agricultural production "at the roots"; production quality is different; unlike Soviet statistics, American statistics include the forestry and fishing industries in the category of agriculture). Having accepted that this ratio is 75 percent, we will obtain the unknown value for the national income in Soviet agriculture. 75 percent is our subjective estimate. The reader may wish to change it -- this would lead to a proportionate change in all of the absolute values (USSR national income, military expenditures, etc.) determined below.]

The agriculture share of the total official USSR national income is 19.4 percent (page 553, computation; agricultural production is taken at existing purchase prices). From this we derive an official USSR national income equal to 33 billion dollars -- a surprisingly low result! (For comparison, the national income of the United States computed according to the Soviet methodology is 551.6 billion dollars, that of Japan -- 98 billion, the Federal Republic of Germany -- 84 billion, France -- 75 billion, page 97).

The fact that existing prices understate the USSR national income, namely in the first subdivision, is rather well known (for example, see Ya. A. Kronrod, "Obshchestvennyy produkt i yego struktura pri sotsializme" ("The Social Product and its Structure Under Socialism"), Moscow, 1958, page 471). It is also known that a price adjustment must be made for a proper comparison with the United States.

§ 3. We can make a quantitative adjustment of prices for the USSR total national income with a simplifying supposition (cf. citation in § 1) in which only two scales of wholesale (purchase) prices operate: one, for production of the second subdivision and for means of production entering into branches of the second subdivision, housing and similar construction; and two, for military production and for means of production entering into branches of the first subdivision. In order to correct the price structure we will fix that part of the total national income corresponding to the first scale (165 billion rubles; see Chapter 1, § 7) and will proportionately increase the remaining 111 billion rubles by multiplying them by a certain unknown coefficient "K."

The corrected national income may be written by the following formula:

$$NI = 111K + 165. \tag{1}$$

The share of military expenditures in the national income (cf. Chapter 1, § 4):

$$\frac{80K}{111K + 165} \cdot \tag{2}$$

Accumulation norm (share) (cf. Chapter 1, § 5):

$$\frac{31K + 38}{111K + 165} \cdot \tag{3}$$

Personal consumption share (cf. Chapter 1, § 7):

$$\frac{120}{111K + 165} \cdot \tag{4}$$

Agriculture share (cf. page 558):

$$\frac{50.8}{111K + 165} \cdot \tag{5}$$

Formula (5) holds true because of the specific branch nature of agriculture -- almost all of the production is used in the second subdivision.

On the basis of (6) and the absolute value of agriculture's share of the national income (17 billion dollars; see § 2) the absolute figure of the total national income of the USSR is determined.

$$\text{National Income (\$billion)} = \frac{17}{\text{agriculture's share}} = 17 \cdot \frac{111K + 165}{50.8} \quad (6)$$

From (2), (6) we get

USSR military expenditures ($billion) = 27 K. (7)

The actual figures for the national income, military expenditures, accumulation and personal consumption are of enormous interest, and it is very important (it is the basic result of the above discussions) that they are identically connected with one another and with agriculture's share.

Again let us emphasize: the smaller the actual share of agriculture in the total national income of the USSR, the greater the absolute value of the national income, and at the same time the greater the defense portion within it. Of these three values agriculture's share permits an objective estimate (See § 5, 6). But before we carry it out we must visualize the character of the anticipated result.

§ 4. To this end we consider the following two assumptions:

a) In 1969 the total national income of the USSR was no less than that of Japan $132 billion, UN). According to the formulas of § 3 for this lower limit the national income corresponds to: K = 2; the portion for agriculture = 13 percent; the portion for military expenditures = 41 percent; the absolute value for military expenditures = 54 $ billion.

b) Military expenditures of the USSR cannot be significantly greater than those of the United States ($81.5 billion in 1969). This figure represents the upper limit for the national income of the USSR, equal to $170 billion. Here K = 3; agriculture's share amounts to 10 percent; defense expenditures' share to 48 percent.

We shall make use of assumption (a) in the future, including in arriving at the end result. It seems inconceivable that the true national income of the USSR was even smaller.

Assumption (b) roughly corresponds to the achieved parity in military might of the USSR and U.S. (see Pravda, 14 Aug 71). However, an evaluation of the magnitude of the USSR military expenditures, for reasons of military parity, is very qualitative. (On one hand, assumption (b) appears to be quite correct, since more than 50 percent of the U.S. military expenditures are

"eaten up" by Indochina and the very large, in comparison with the USSR, personal consumption of the Armed Forces. On the other hand, the USSR has its own overhead expenditures, mainly due to the poor organization of production and a general technological lag, for to raise the quality of military hardware up to par with the world standards, would require disproportionately large expenditures.

In addition, assumption (b) anticipates the answer to the basic question of the article. For this reason we shall not make use of it and will obtain the upper estimate of USSR military expenditures independently by determining the minimal, reasonably possible, share of agriculture in the USSR national income.

§ 5. We see that the share of agriculture in the country's national income is directly proportionate to the well-known demographic quantity -- the share of those employed in agriculture in the total number employed. This relationship is determined by empiric analysis of data for a large number (70) of countries (see MO and MO, No 11 and 12, 1970 estimates).* The existence of such conformity is not accidental and may be explained by the fact that as a result of the reciprocal interaction of the branches the relationship of labor productivity in industry and agriculture is weakly linked with the level of development of productive forces and with geographical and other factors. Out of 70 countries examined, those with per capita national income not below 300 dollars are comparable with the USSR (besides two specific [countries] specializing in petroleum extraction -- Libya and Venezuela). There are 29 such countries in the indicated footnote. The average ratio for this selection of the share of agriculture to the share of those employed in it equals 0.6 and the lowest value of this ratio amounts to 0.31 (Metodika). For the share of agriculture in the USSR national income these two numbers yield 17 percent and 9 percent respectively (since it is a known fact that those employed in the USSR agriculture constitute 29 percent of all persons employed in the national economy, page 527).

We will take 9 percent as the minimal reasonably possible value of the sought-for share of agriculture in national income of the USSR. Indeed, this share should lie somewhere within the limits of 9 to 13 percent. (The upper limit is obtained on the assumption a (§ 4 -- that the USSR's national income would not be below the national income of Japan).

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* These tables give the structure of the Gross National Product which differs from the total national income, mainly by the addition of depreciation and indirect taxes. However, possible small differences in the branch structure of the Gross National Product and the national income are not important for our estimates.

§ 6. Let us examine how probable this result is. The fact that the interval obtained (9 -- 13 percent) lies wholly below the "average" 17 percent, is not accidental and may be explained by historical reasons. Industrialization at the expense of agriculture and the administrative barriers which have rendered departure from kolkhozes difficult have created a considerable gap between industry and agriculture with respect to labor productivity.

However, the discrepancy cannot be abnormally greater, since the same collectivization contributed to the intensive development of industry through influx of manpower from agriculture; and since, despite the passport barrier the number of people employed in agriculture is steadily falling not only in relative terms but in absolute terms, and the level of mechanization of the USSR agriculture is high. Thus, there is no basis to think that with 29 percent of those employed the share of agriculture in the USSR national income is abnormally low -- less than 9 percent. The 0.31 limit for the ratio of agriculture's share in national income to its share in the employed population is the minimum in a group of the most diversified countries. It included only countries with a strong predominance of one extractive branch in industry, which doesn't apply to the USSR. (Out of the 70 -- four: Venezuela, Libya, Zambia, Southern Rhodesia).

As the economic structure of the USSR is concerned -- it is an industrial-agrarian state of the type of Italy or Japan (the share of those employed in agriculture amounts to 23 percent and 24 percent respectively; the share of agriculture in national income amounts to 13 percent and 12 percent respectively) but it is far removed from such industrial states as the United States, England, the Federal Republic of Germany (the share of those employed in agriculture amounts to 5 percent; 3.1 percent, and 10 percent respectively; the share of agriculture in national income -- 3 percent, 3 percent, and 4 percent respectively).

§ 7. We formulate the final result. In accordance with § 3 a change of "K" from 2.0 to 3.6 corresponds to a change of the share of agriculture in the USSR national income from 13 to 9 percent. For these limits, according to the § 3 formulas, we get:

1) Total USSR National Income: from 150 to 190 billion dollars, and its relationship to the total United States National income: from 17 percent to 25 percent. (See Appendix 2 for a critique of official comparisons).

2) The share of defense expenditures in total national income: from 41 percent to 51 percent.*

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* This conclusion is qualitatively confirmed by the authoritative evaluation of the Academician Aganbegyan, according to which some 30 million persons are working directly or indirectly for defense. [His 1965 speech at Novosibirsk is in Samizdat.]

3) Accumulation norm: 26 percent (by chance, it hardly depends on "K"); the value: from 34 to 50 billion dollars.

4) The share of personal consumption: from 31 percent to 21 percent; its absolute value: 40 billion dollars. (It does not change when prices are adjusted, since it is in a fixed relationship to the base figure of the net income in agriculture).

CHAPTER 3

The table cited below permits a comparison of the USSR with a number of countries in terms of the magnitude of military expenditures, their share in the total (i.e., including the unproductive spheres) national income, and also (the last column) qualitatively according to the average standard of living (taking into account both social funds as well as the amount of paid services).

Country	Share of Military Expenditures in the Total National Income %	Absolute Magnitude of Military Expenditures (billions of dollars)	Annual Personal Needs per Head of Population (dollars)
USSR	41-51	54-97	170
U.S.	10.7	81.45**	2240*
FRG	5.1	5.83	980*
England	6.5	5.45	880*
France	5.5	5.78	1210*
Italy	3.3	2.26	760*
Belgium	3.6	0.63	1100*
Spain	2.4*	0.525*	490*
Japan	0.9	1.18	620*
Israel	17*	0.54*	830*
India	3.4*	1.3*	50-60
China	10-20	5-12	30-50

* Data for 1968.

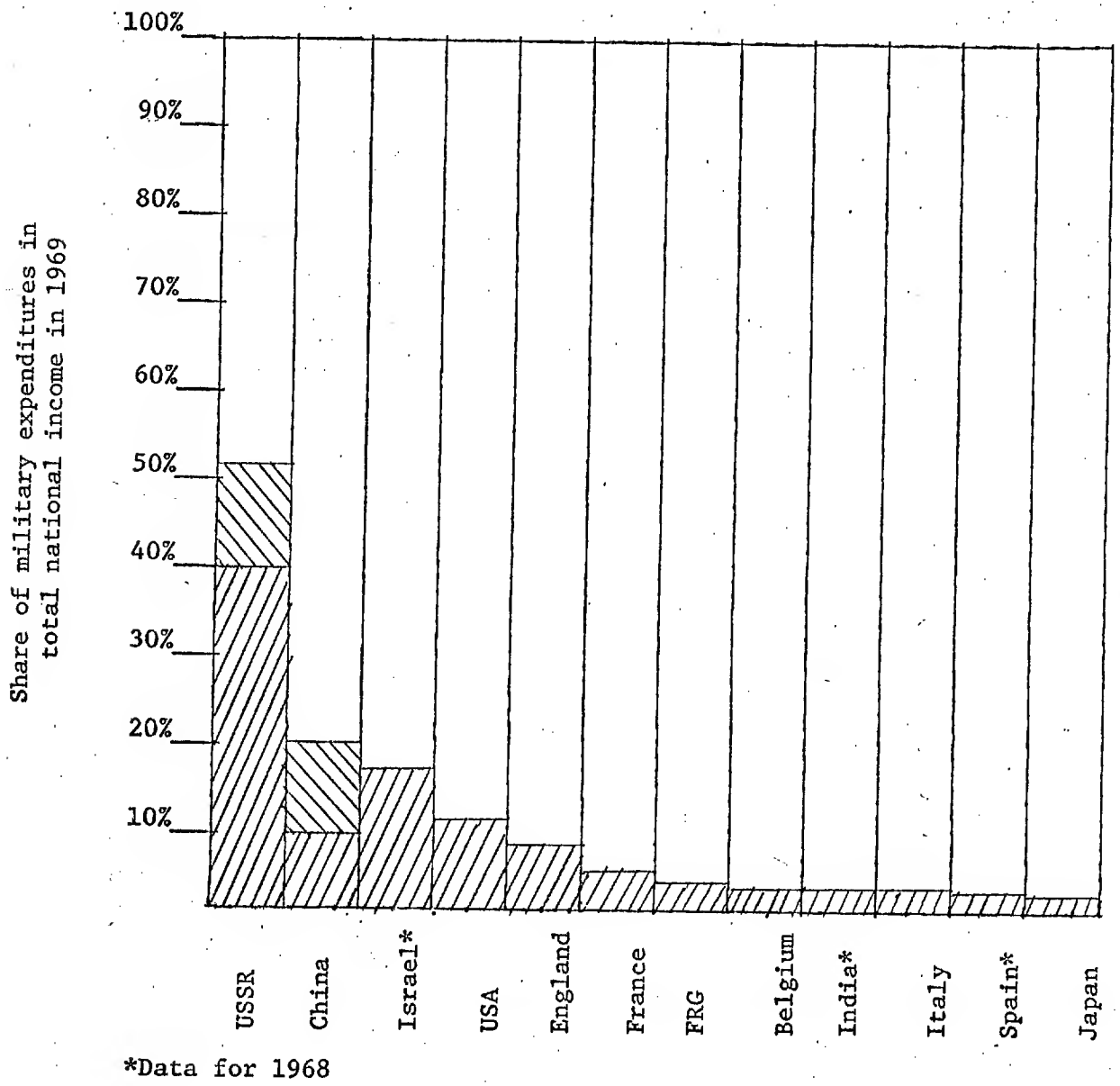
** Of this the contribution in Europe is 12 billion dollars (Pravda, 6 October 1970) and in Vietnam 30 billion dollars (in 1969).

Footnotes to the Table

(a) Data for the non-Socialist countries is calculated on the basis of UN statistics; military expenditures of member countries of NATO in 1969 -- according to Mirovaya Ekonomika i Mezhdunarodnyye Otnosheniya, No 9, 1971. Indirect and other taxes are deducted from personal consumption.

(b) The estimates for China are based on material from foreign newspapers.

For clarity we present the first column of the table in diagramatic form, according to which the countries are presented in the order of decreasing share of military expenditures:



*Data for 1968

Conclusions.

1) The year 1969 is a characteristic one. The ability to continually maintain such a proportion of current military expenditures and a simultaneously high norm of accumulation during peacetime (all told 67-77 percent of the total national income) is a phenomenon unprecedented in world history. Here the extraordinary power, which provokes admiration, of our social system in mobilizing internal resources is graphically demonstrated.

What are the reasons for such an orientation of the economy? In today's world, an attack on any powerful state would not be either beneficial or safe for anyone. Such a large country as the USSR, which already possesses modern weaponry, would be fully secure if it spent as much as China or the FRG spend -- that is 5 to 10 times less than at present. More than this would not be required even for the defense of all the countries -- which are Warsaw Pact members, which compose a compact territorial area.

China should be mentioned in particular, since now the "Chinese threat," has supplanted the threat of the "revanchists" in the consciousness of many. Moreover, the incommensurability of the economic and military potentials of the USSR and China has been completely ignored. The difference, for the production of electric power and for steel smelting is approximately 10 times, and for cement -- 7 times (for information on China, see, for example, the handbook, Countries of the World, Moscow, 1970, page 153).

China's scant resources are basically spent on meeting the basic physiological needs of its huge population (730 million -- according to the UN). Little is left for development; the same holds true for military needs (see table). It would be quite useless for the populace to consider waging a modern offensive war. (According to foreign press information the Chinese regular army numbers about 3 million men, but it is poorly equipped for the most part. "The basis of Chinese military strategy in war on its own territory; drawing the enemy into the depths of its territory and surrounding him with a sea of hostile people." -- from a report on the international situation). The still absolute superiority of the USSR in the air must also be considered; this decides the outcome of modern war to a considerable extent.

We notice that the share of our military expenditures basically reached its level before we started to strengthen the border with China. The relative vulnerability of the Far East -- is more of a question of a transportation and economic nature. It has no relationship to the basic military potential of the USSR. As far as our rocket-nuclear forces, atomic submarines, etc., are concerned, it is simply absurd to consider them set against China [with all of its achievements].

From the tables and diagrams it is seen that in the military sense we are obviously living beyond our means. Why? Enormous military expenditures are not necessary for the defense of the country. More than this, in

the long-term plan, by slowing down economic growth they also adversely affect the military potential. They make sense only for obtaining short-term political-strategic results and obviously reflect the attempts to play an ever larger role in the world arena.* Moreover, they of course wish to avoid global conflict but seek to be prepared for it in the near future. Such a game has its still not studied logic and it is difficult to foresee the results.

The opposite influence is also important: the appropriate departmental interests in many respects determine the policy of the state.** Both in the U.S. and the USSR a great deal is written about the influences of the "military-industrial complex" on the economic, political, and spiritual life of American society. It is characteristic for the U.S., however, that the impact of this complex is overshadowed by the impact of a much more powerful "consumer-industrial complex," that is primarily interested in lowering taxes. This was revealed particularly in the decisions of Congress after 1969 that lowered defense expenditures [see, for example Victor Perlo's article in Pravda, 9 September 1970].

The American public is characterized by a concern for those dangers to the country that threaten further expansion of the military-industrial complex. Now let the reader mentally increase the American share of military expenditures in national income [10 percent] four or five times, correspondingly decrease the role of consumption, and imagine the consequences.

2) Let us now examine the impact of the phenomena revealed on the internal structure of Soviet society.

The retention of the uniquely large share of military expenditures is hardly compatible with a liberal-democratic regeneration of our system about which many representatives of our (and Western) intelligentsia dream.

Economic concessions have always existed and will continue as long as the technical lag exists under conditions of the scientific and technical revolution.***But they have invariably remained and will continue to remain

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* Detailed analysis of this aspect of the USSR's foreign policy is contained in the brochure by S. Zorin and N. Alekseyev "Time Marches On", Leningrad, 1969, available in Samizdat.

** In order to understand the mechanism of this phenomenon it is necessary to delve into the "decision making" procedure at the highest level -- in the Politburo. However, this question goes beyond the framework of this work and we hope to return to it in the future.

*** Example: Half of the machine tool inventory of the USSR is engaged in the repair (i.e., reproduction) of obsolete equipment. [Pravda, 1 Sep 70]. A beautiful analysis of our present day economic lag at the present stage is given in the work of Yu. Gesin "Concerning the Dictatorship of the Proletariat," Leningrad, 1970 which is available in Samizdat.

on paper, as long as the principal cause of the current situation remains.*

As long as the economy of the country is considered ancillary to current military requirements, its internal needs always will be sacrificed, consumption's share will be sharply limited, and the necessity for strict discipline (including ideological) from top to bottom will remain.

The thesis concerning the inevitability of the transformation of our system (or the convergence of the two systems) is connected frequently with the emergence on the social scene of a completely new class -- scientific-technical intelligentsia. Perhaps this is so. Now, however, the best forces of the Soviet scientific and technical intelligentsia contribute much to the fact that the scientific and technical revolution has not occasioned any material changes: (1) by perfecting centralized administrative controls (in particular by introducing cybernetics into management), and basically (2) by their invaluable contribution to the development of the military machine which, since this task is the most important, greatly conceals the effect of such social catalysts as administrative disorders and economic difficulties. Some of them are even guided by a certain sense of obligation to those circles which now distribute the national income of the country. They forget that, by this very action, they share responsibility with them for all the things which go on in our country: from the constant queues and the shortage of goods to the oppressive censorship and the system of committing normal people to psychiatric hospitals. Meanwhile, these phenomena are only the particular, and yet, we must stress, the inevitable consequences of the mobilizational approach to the national economy.

Very few understand the moral inadmissibility of such activity, or realize the lofty humane nature of pacifism since, basically, even thinking people underestimate the determining role of the "defense" arrangement in the fortunes of the country.

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* The basic innovations of the last few years: the economic reform and attempts to bring up the industries involved with the realization of the monetary incomes of the population. The latter was caused by the inflationary growth of large sums of money in the hands of the public which undercuts the policy of material stimulus and which cannot be stopped. (The amount of deposits in savings banks alone in 1969 was 38.4 billion rubles. [Pravda, 4 Oct 71, p 2]. The fact that the reform has not achieved the most important goal (it is extremely disadvantageous for the enterprises to introduce new technology) has been discussed at length [see Pravda, 18 Aug 71, p 2; also, for example, Pravda, 17 Sep 70; 3 Mar, 20 Apr, and 8 May 71]. There is no doubt that these critical statements are only a faint echo of the actual state of affairs.

The part played by the scientists in the preservation of the status quo is extraordinary. On the other hand, the development of the class consciousness of the scientific and technical intelligentsia is truly fraught with progressive social reformations. However, we cannot exclude the possibility that the characteristic time of these processes is longer than the half-life of mankind's decay, as determined by the current situation. The position "Everything proceeds as it should and determines itself" is a pernicious position.

It's about time we noticed the beam in our own eye.

APPENDIX I

A Comparison of the Soviet and the Western Methodology of Calculating Produced National Income. Calculation of the Total National Income of the USSR

The official produced national income of the USSR is calculated as the value of the entire annual output of the material production sphere computed at actual current prices, excluding amortization deductions and the value of material expenditures. This calculation of national income differs from "the Western one" in two respects: 1) the separation of the national economy into the material production sphere and the unproductive sphere (and the exclusion of the latter from national income), and 2) the inclusion in national income of the turnover tax and of other indirect taxes in the material production sphere.

We shall demonstrate that these two points "compensate" each other in a certain way, so that the official national income of the USSR should differ only slightly from the total national income of the USSR calculated according to the Western methodology. (A distinction which is important in principle but rather small in the case of the USSR, is the contribution of paid services, [see below].) The crux of the matter is that the major part of the unproductive sphere of the USSR (as well as the planned-loss branches of the material production sphere) is maintained at state expense. Since in our country medical services, education, etc., are free, and the price of military technology and of many other types of production in the material production sphere is greatly understated (or simply equal to zero), the natural method of calculating the part of the national income produced in the subsidized branches is the inclusion in national income of the taxes from which the subsidies are paid.* In the U.S. government purchases are made from the tax funds at high prices, which include the prime cost and profit. This procedure automatically takes into account that portion of the national income produced, for example, in the military industry.**

* This method reflects the fact that "part of the national income created in the first subdivision is realized in the prices of the output of the second subdivision which, without changing the national income, substantially changes its branch structure." D. A. Amlakhverdyan, "The Finances of the Socialist State," Sotsekgiz, Moscow, 1961, p 31.

** The Soviet methodology of calculating the national income of the United States (and other non-Socialist countries) consists, in particular, in excluding from total national income all government purchases (they relate to the unproductive sphere); moreover, indirect taxes are not added to the national income. It is clear that the national income of the United States calculated in this fashion cannot be compared with the official national income of the USSR.

The Soviet method, however, does not include all taxes in national income: it does not include direct and indirect taxes in the unproductive sphere, an amount of the order of 30 million rubles (see Chapter 1, § 3). Is this correct (in the sense of comparability with the western methodology for calculating national income)? We think that it is approximately correct. For comparability of produced national income, the tax sums which defray the wages of the workers of the unpaid services sphere (and other subsidized branches) should be included but that part of taxes which go for "material expenditures in institutions which serve the population, scientific institutions, and in administration (21.3 million rubles, p 559) or for payment of pensions (15 million rubles, p 771) should not be included. In the aggregate, these sums are comparable to the amount of unaccounted taxes which confirms our conclusion regarding the correspondence of the two methodologies.

As already noted, the single important distinction between the official national income and the total national income of the USSR is the contribution to the latter of the paid (i.e., self-financing) branches of the unproductive sphere such as passenger transport, everyday services, etc.

For this investment, we assign a deliberately overstated value, by assuming that its share in the total national income is equal to the share of those employed -- approximately 7 percent. (This value is on the high side, since the productivity of labor in the unproductive sphere is probably lower than in the material production sphere. Proceeding from the size of the official national income (261.7 million rubles), it is not hard to show that the sought-for addition is not more than 20 million rubles (see Chapter 1, § 6).

APPENDIX 2

Criticism of Official Economic Comparisons of the USSR and U.S.

It is asserted that the correlation of industrial production of the two countries is 70 percent (pages 94, 834). But this is true only for a few specially selected types of production (and even this was taken as "gross"). Actually, the part of the national income produced in U.S. industry (without indirect taxes) is about 10 times greater than in agriculture (in 1968 it was equal to 213 million dollars, i.e., 9.5 times greater than in agriculture; "Statistical Yearbook USA", 1969). The analogous ratio (correlation) for the USSR, if one believes the official comparisons of industry and agriculture (pp 94, 95), must be equal to 8. But in our actual prices it is 2.4 (p 558, calculation moreover the entire turnover tax is attributed to industry). The contradiction is appalling. This is why it is written in our textbooks that comparison with the U.S. requires correction of the USSR price structure.

However, in order to eliminate this contradiction and at the same time obtain the official ratio of the national income of the two countries based on Soviet methodology of 65 percent (p 95), an incredibly large price correction is needed, (coefficient 'K' Chapter 2 will be about equal to 8). Moreover the official USSR national income should be equal to 360 billion dollars, and this means that the total national income is 390 billion dollars; the agricultural share in it falls to 4.4 percent (this given the 29 percent employed in agriculture 11), the share for military expenditures is equal to 61 percent, while their magnitude is 240 billion dollars.

Let it be recalled that estimates of the absolute magnitudes of the defense expenditures and the national income of the USSR mutually correct one another (see Chapter 2). Thus if defense expenditures are lowered to a reasonable size, national income is correspondingly lowered.

List of some definitions and abbreviations

1. ND -- national income;

   a) Official ND -- national income calculated according to Soviet statistical methodology;

   b) Total ND -- national income calculated according to Western methods (including the non-productive sphere, but not indirect taxes). The definition of total USSR national income as the official national income plus the contribution of paid services corresponds approximately to this definition.

2. s.kh. -- agriculture.

3. SMP -- Material production sphere [according to the classification of the Central Statistical Administration, it includes industry, construction, agriculture (including private plots), freight transport, trade, public catering and so on, p 528].

4. Nepr. sf. -- non-productive sphere (science, administration, paid and free services).

5. VR -- military expenditures.

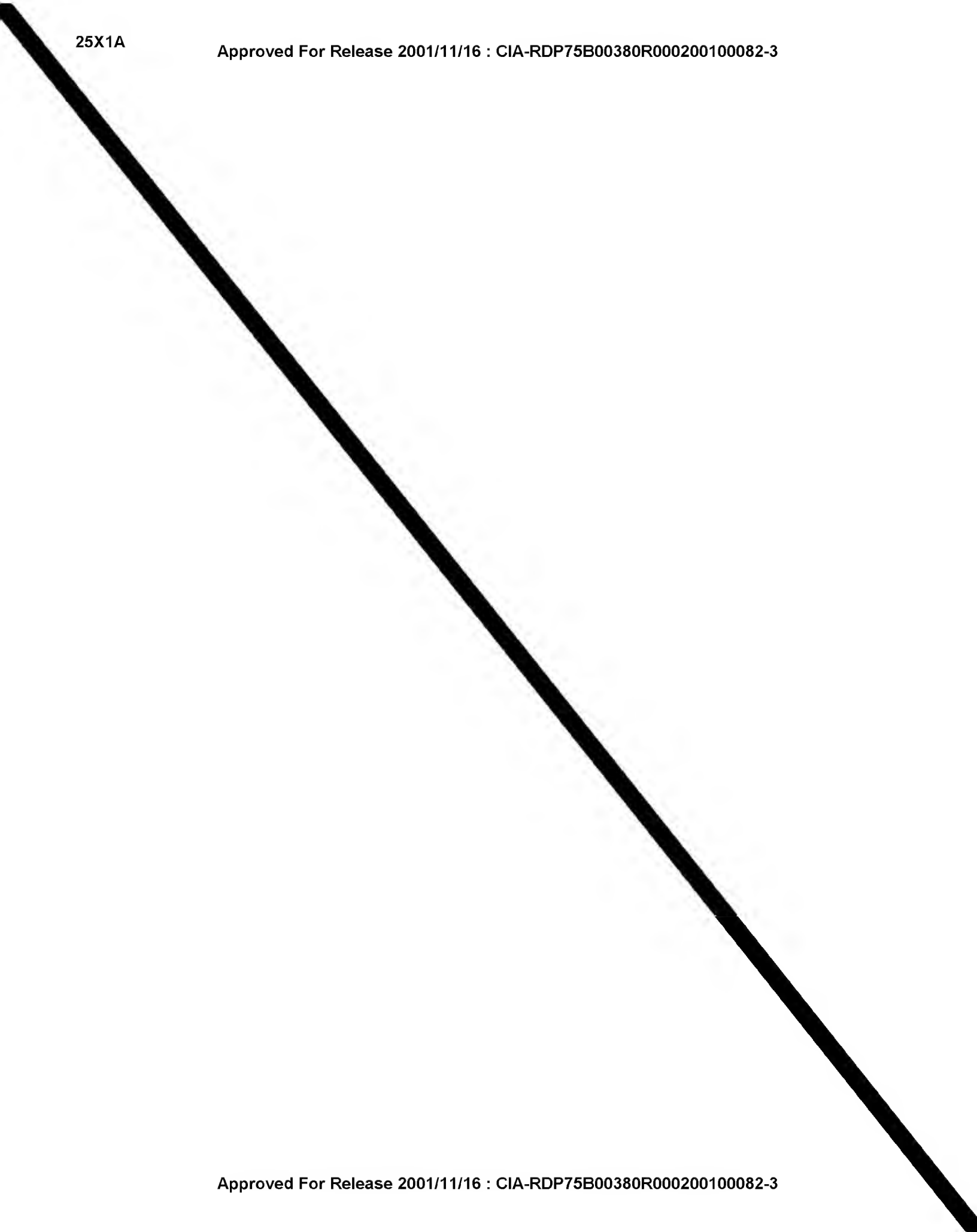
6. NO -- turnover taxes.

7. First subdivision -- production of the means of production [producer goods] (also includes all defense industry);
   Second subdivision -- production of consumer goods. For industry this corresponds to group A and group B.

8. Lichn. potr. -- personal consumption (includes benefits received from social funds, including also current expenditures in education, sanitation, etc.).

9. NTR -- scientific-technical revolution.

10. NTI -- scientific-technical intelligentsia.



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